

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 ABF-01 L-03 NSC-05
SS-15 STR-07 CEA-01 PA-01 DODE-00 DOE-15 SOE-02
/113 W

-----106912 041857Z /46

R 041812Z APR 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 7332
INFO AMCONSUL FRANKFURT

C O N F I D E N T I A L SECTION 01 OF 02 BONN 06079

E.O. 11652: GDS
TAGS: EGEN, EFIN, GW
SUBJ: LUNCHEON WITH BUNDESBANK PRESIDENT AND VICE
PRESIDENT

1. AT MY REQUEST CONSUL GENERAL LEHMANN HOSTED LUNCHEON
ON MARCH 30 FOR ME IN FRANKFURT WITH BUNDESBANK
PRESIDENT EMMINGER AND VICE PRESIDENT POEHL. THE
ATMOSPHERICS WERE EXCEPTIONALLY GOOD. EMMINGER WAS
NOTABLY CORDIAL AND SEEMINGLY VERY RELAXED AND
COMFORTABLE IN HIS RELATIONSHIP WITH US ECONOMIC POLICY
MAKERS.

2. I DESCRIBED MY IMPRESSIONS OF US ECONOMIC POLICY AND
IN PARTICULAR THE CONCERN OVER INFLATION WHICH I
HAD DETECTED DURING MY WASHINGTON CONSULTATIONS. THEY
WERE PARTICULARLY PLEASED OVER THE STRESS THAT THE
ADMINISTRATION IS GIVING TO FUNDAMENTALS, AND INDICATED
COMPLETE AGREEMENT OVER US EXCHANGE RATE POLICY, I.E.
INTERVENTION IN MARKETS ONLY TO PREVENT DISORDERLY
MARKET CONDITIONS.

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3. THEIR COMMENTS ON THE DOLLAR/DM EXCHANGE RATE WERE
VERY MUCH TIME ORIENTED. THEY WERE SANGUINE OVER THE
PROSPECTS FOR THE DOLLAR OVER THE NEXT FEW WEEKS
(ALTHOUGH THIS WAS BEFORE OUR FEBRUARY TRADE DEFICIT
WAS ANNOUNCED). THEY BELIEVED THAT THE AGREEMENT WAS
WORKING WELL IN PRACTICE AND LIKELY TO CONTINUE TO DO
SO, FOR A WHILE. HOWEVER, AND AGAIN THEY STRESSED

THE IMPORTANCE OF US ATTENTION TO FUNDAMENTALS, A
FURTHER SLIPPAGE OF THE RATE TO MUCH BELOW 2 DM
EQUALS \$L.00, WOULD BE "DISASTROUS" FOR GERMAN INDUSTRY.

4. EMMINGER ALSO EXPRESSED CONCERN OVER MEDIUM AND
LONG-TERM IMPACT OF AN OVERVALUED DM ON GERMAN INDUSTRY.
HE DREW A PARALLEL WITH US EXPERIENCE IN THE 50'S AND
60'S, AND BELIEVED THAT INEVITABLY PRESENT TREND IN
GERMANY TOWARDS CAPITAL INVESTMENT ABROAD WOULD INTENSI-
FY AS MORE AND MORE GERMAN MANUFACTURERS PURCHASE
CHEAP ASSETS ABROAD AND BEGIN TO SUPPLY CUSTOMERS FROM
OVERSEAS MANUFACTURING BASES. THE DROP IN GERMAN
EXPORTS WILL NOT BE TOO SHARP; GERMAN INDUSTRY IS TOO
EXPORT ORIENTED FOR THAT TO HAPPEN. HOWEVER, GERMAN
MANUFACTURERS WILL BE FORCED TO ACCEPT LOWER PRICES
IN ORDER TO STAY COMPETITIVE. THAT WILL LEAD TO A
PROFIT SQUEEZE AND A LOWER RATE OF DOMESTIC INVESTMENT
THAN IS OPTIMUM FOR HEALTHY GROWTH. GERMAN LABOR
COSTS, WHICH ARE ALREADY EXCESSIVE, WILL INTENSIFY THIS
TREND. POEHL, WHO SITS ON VOLKSWAGON BOARD, TOLD
ME IN CONFIDENCE THAT VW, WHICH HAD ORIGINALLY PLANNED
A 60/40 RATIO BETWEEN US AND GERMAN ORIGIN COMPONENTS
IN THEIR NEW STANTON OPERATION, IS NOW PLANNING ON
L00 PERCENT US PRODUCTION.

5. THEY SAW OTHER REASONS FOR CONCERN OVER LONG-TERM
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TRENDS AND DEVELOPMENTS. LIKE MOST GERMANS THEY
REGARDED SETTLEMENT OF METAL WORKERS STRIKE AS OF KEY

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 06079

IMMEDIATE IMPORTANCE, NOT SO MUCH IN TERMS OF THE WAGE SETTLEMENT, SINCE THE DIFFERENCES BETWEEN EMPLOYERS AND EMPLOYEES WERE NEGLIGIBLE, BUT RATHER BECAUSE OF OTHER WORK-RELATED ISSUES INVOLVED. EMMINGER TOOK A BROAD HISTORICAL VIEW OF THE ROLE OF TRADE UNIONS AS PARTNERS IN GERMAN ECONOMIC DEVELOPMENT. THE UNIONS HAD ALWAYS BEEN RECEPTIVE TO TECHNOLOGICAL CHANGES IN INDUSTRY AND HAD BEEN PREPARED TO ACCEPT LABOR SAVING INNOVATIONS. HE SEES THIS COOPERATIVE RELATIONSHIP AS CHANGING, AS A NEW GENERATION OF LABOR LEADERS COME TO THE FORE. FOR THE MOST PART, THESE LEADERS ARE WELL-EDUCATED INTELLECTUALS WHO HAVE SPENT THEIR ENTIRE WORKING LIVES IN THE UNION BUREAUCRACY AND HAVE HAD NO PRACTICAL SHOP-FLOOR EXPERIENCE. EMMINGER BELIEVES THAT THE PRINTING AND METAL WORKER DISPUTES ARE ONLY THE BEGINNING OF A PROCESS WHICH WILL LEAD TO FAR MORE TURBULENCE IN THE LABOR SCENE THAN IN THE PAST.

6. EMMINGER COMMENTED SOMEWHAT WRYLY ON THE CURRENT
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WAVE OF CRITICISM OF THE BUNDESBANK, OVER ALLOWING MONEY GROWTH TARGETS TO BE EXCEEDED. HE DOESN'T BELIEVE THAT THIS CRITICISM IS EITHER FAIR OR JUSTIFIED. NONETHELESS, IT IS A FACT OF LIFE AND NO DOUBT, HE CONCLUDED, THE BUNDESBANK WILL BE THE PRIME SCAPEGOAT; SHOULD INFLATION AGAIN EMERGE AS A PROBLEM.
STOESSEL

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